

Blueprint Maryland

THE STATE'S HOUSING ECONOMY IN REVIEW SEPTEMBER – OCTOBER 2006

Past Housing Cycles Point to a Soft Landing

Economic cycles are long term, universal among all regions, and identifiable by a single variable such as changes in employment or output. Housing cycles also are long term, but vary significantly by region. As a result, many variables that represent local housing conditions including home sales, residential construction employment, household formation, housing permits, and income growth do not meet the requirements of being a universal cyclical marker for the housing industry.

Our analysis of economic data for the past two decades shows that the home price appreciation rate can serve as a proxy indicator of national and regional housing cycles.

Beginning in 1980, the rate of growth for existing home sales prices decreased significantly in Maryland, reaching a trough of -0.3 percent in 1983 (Exhibit 1). The home price appreciation rate strengthened in 1984 and continued its upward trend during the following five years, culminating in a peak of 13.6 percent in 1988. The third cycle occurred

during the period 1989 to 1995 when home prices weakened consistently, reaching a trough of -1.4 percent in 1995. The year 1996 marked the start of a home price appreciation period that lasted until 2005, when Maryland home prices grew at an annual rate of 22.4 percent. This unprecedented home price appreciation rate marks the peak of the current housing cycle, as the available monthly data for 2006 point to a slow down in the growth of home prices.

The housing cycles observed in Maryland also represent the national as well regional cycles (Exhibits 1 and 2).

Similar to Maryland, the national and regional home price appreciation rates registered their slowest growth in 1983 and 1995, while reaching their peak in 1987 or 1988 and in 2005. An interesting observation about the housing cycles is that the trough of the cycles never occurs abruptly. The downswing of the housing cycle always occurs over several years during which home price appreciation rates slow down gradually, eventually leading to a short period (less than one year) of modest home price declines. As a

...continues on page 2

CONTENTS

- 1 PAST HOUSING CYCLES
POINT TO A SOFT LANDING
- 1 NATIONAL ECONOMIC DIGEST
- 3 RESIDENTIAL CONSTRUCTION
- 5 MORTGAGE RATES
- 5 HOME SALES
- 7 HOMEOWNERSHIP
AFFORDABILITY INDICES



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National Economic Digest

A Deceleration of U.S. Economy

According to the Bureau of Economic Analysis (BEA), the U.S. economy grew at an annualized rate of 2.9 percent in the second quarter, up from the previously released estimate of 2.5 percent, but well below the first quarter growth of 5.6 percent. As previously reported, the slower pace of the economy is due to a lower consumer spending on durable goods, slower business investment in equipment and software, and a decrease in federal government spending. Corporate profits rose 3.2 percent to \$49.5 billion in the second quarter, compared with an

increase of 12.6 percent to \$175.6 billion in the first quarter. Inflation, excluding volatile food and energy prices, was revised marginally lower to 2.8 percent in the second quarter, following a 3.0 percent increase in the first quarter.

Chicago Fed National Activity Index Declines

The Chicago Fed National Activity Index (CFNAI) declined in July to -0.12 from +0.43 in June. The three month moving average of the Index was +0.07 in July, signifying that growth in national economic activity was slightly above its historical trend. Production-related indicators made a

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SHAWN S. KARIMIAN
Acting Secretary, Maryland Department
of Housing and Community
Development

This issue of *Blueprint Maryland* shows that the year 2005 marks the peak of the third housing cycle in Maryland since 1980, as the state's home price appreciation rate has slowed down to 10.5 percent during the first seven months of 2006, compared with the similar period in 2005. However, based on the analysis of the past 25 years, the recent downturn in the housing market is anticipated to proceed at a gradual pace, causing a steady moderation in the rate of growth of home prices. Please visit www.mdhousing.org for more information.

The recent housing market slowdown is generally represented by a gradual moderation in the rate of growth of home prices. The analysis of economic data for the past two decades does not support the “housing bubble” hypothesis.



...Past Housing Cycles from cover

result, home prices appear to be quite sticky in the downward direction, even during periods of a weak economy.

Local housing cycles within Maryland also can be measured by changes in home prices. All Maryland jurisdictions demonstrate housing cycles that closely resemble statewide, regional and national cycles. Similar to the observed cycles shown in Exhibit 1, the first local housing cycle occurred between 1980 and 1982 in the Baltimore region and between 1980 and 1983 in all other Maryland regions. The peaks and troughs in all consecutive local housing cycles correspond precisely to the observed national, regional and statewide patterns (Exhibits 3 and 4).

Some economists and housing specialists have been discussing the bursting of the housing bubble and the upcoming of a housing crunch. Such observations, however, are not consistent with historical data. Over the past 25 years, home price appreciation rates have slowed down gradually but never demonstrated an abrupt decline. Unlike equity markets where investors switch their financial assets abruptly among various holdings, homeowners do not suddenly abandon their shelter in anticipation of lower home prices. Simply stated, homeowners do not collectively decide to sell their homes at specific times or specific prices. As a result, a downturn in the housing market is generally represented by a gradual

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EXHIBIT 1: REGIONAL GROWTH IN MEDIAN HOME SALES PRICES

Year	Maryland	Delaware	D.C.	Pennsylvania	Virginia	West Virginia	U.S.
1980	11.4%	10.9%	0.3%	8.9%	12.2%	10.9%	8.8%
1981	9.3%	3.2%	1.2%	3.7%	6.9%	6.0%	6.8%
1982	1.6%	8.1%	3.0%	-1.4%	4.4%	3.2%	1.3%
1983*	-0.3%	2.5%	1.7%	9.7%	5.0%	3.0%	4.6%
1984	6.6%	7.6%	3.7%	4.6%	8.1%	5.4%	5.8%
1985	7.1%	8.7%	3.3%	4.3%	7.1%	5.6%	5.2%
1986	7.8%	11.5%	8.6%	7.9%	7.8%	6.7%	8.2%
1987	11.3%	13.4%	16.3%	19.7%	8.7%	4.9%	11.0%
1988*	13.6%	11.2%	18.7%	13.2%	10.5%	6.7%	7.5%
1989	6.4%	8.8%	-0.3%	0.3%	1.3%	3.8%	1.1%
1990	5.0%	3.9%	1.6%	1.5%	0.6%	3.0%	-0.7%
1991	2.6%	2.6%	3.4%	4.9%	5.3%	5.8%	1.6%
1992	2.2%	4.7%	1.0%	4.5%	4.2%	5.4%	2.8%
1993	1.1%	2.1%	-2.7%	1.3%	2.7%	3.0%	1.9%
1994	0.2%	-0.2%	-2.5%	1.3%	1.5%	2.6%	3.2%
1995*	-1.4%	-1.3%	1.8%	0.6%	0.4%	2.5%	2.8%
1996	2.9%	3.7%	5.1%	1.7%	3.8%	6.3%	4.6%
1997	5.1%	4.9%	1.6%	3.1%	4.1%	3.2%	5.2%
1998	4.7%	5.8%	-0.6%	3.3%	4.7%	4.9%	6.0%
1999	4.1%	1.9%	3.9%	-1.8%	3.0%	6.7%	5.1%
2000	8.5%	3.2%	8.1%	-1.2%	2.1%	-0.7%	6.2%
2001	8.8%	6.8%	20.7%	5.2%	10.7%	6.1%	6.1%
2002	14.4%	8.7%	18.1%	8.6%	12.9%	7.4%	8.3%
2003	14.1%	8.0%	15.4%	10.4%	11.6%	11.1%	8.4%
2004	18.2%	11.6%	26.4%	10.4%	18.4%	12.9%	12.1%
2005*	22.4%	11.8%	28.8%	12.9%	21.4%	18.3%	12.8%

*Marks the end of a housing cycle

EXHIBIT 2: REGIONAL HOUSING CYCLES

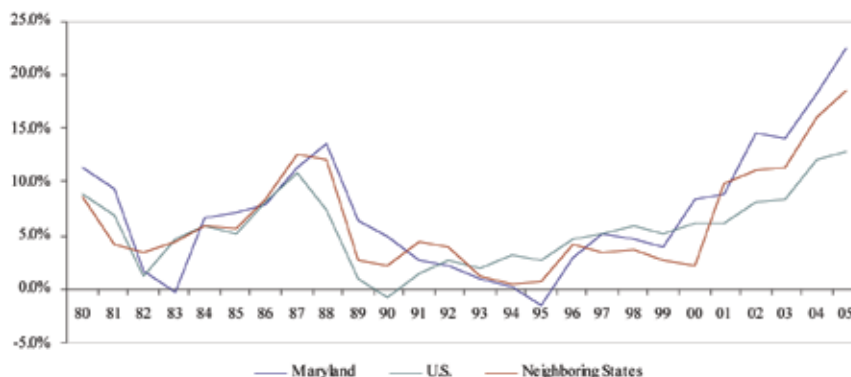


EXHIBIT 3: LOCAL HOUSING CYCLES IN MARYLAND

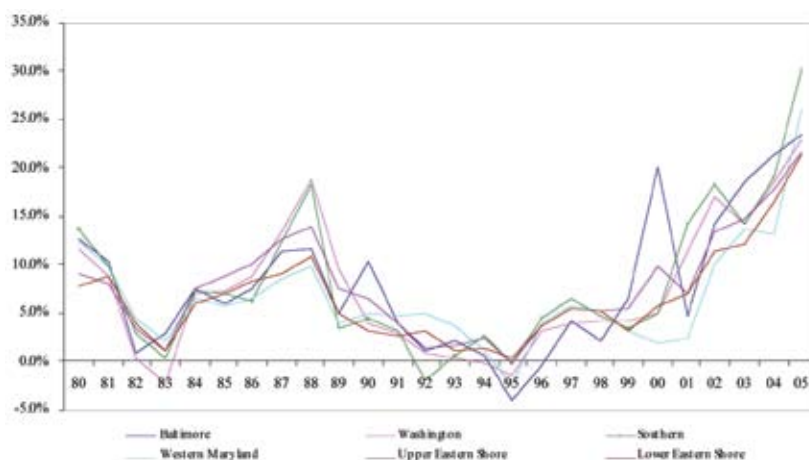


EXHIBIT 4: HOME PRICE APPRECIATION RATES IN MARYLAND REGIONS

Year	Baltimore Region ¹	Washington Suburban ²	Southern Maryland ³	Western Maryland ⁴	Upper Eastern Shore ⁵	Lower Eastern Shore ⁶
1980	12.7%	11.6%	13.6%	12.5%	9.0%	7.9%
1981	10.2%	8.8%	9.8%	9.8%	8.1%	8.8%
1982	0.8%	0.3%	2.9%	4.3%	3.5%	3.9%
1983	2.9%	-2.2%	0.4%	2.1%	1.0%	1.0%
1984	7.4%	7.1%	7.1%	6.5%	7.4%	6.0%
1985	5.9%	7.3%	6.9%	5.6%	8.9%	7.1%
1986	7.4%	8.7%	6.2%	6.5%	10.2%	8.2%
1987	11.3%	13.4%	12.4%	8.6%	12.7%	9.1%
1988	11.6%	18.9%	18.4%	9.7%	13.8%	10.8%
1989	5.0%	9.5%	3.5%	3.9%	7.4%	5.0%
1990	10.4%	4.0%	4.4%	5.0%	6.5%	3.3%
1991	4.0%	3.0%	3.2%	4.8%	3.9%	2.6%
1992	1.1%	0.9%	-2.0%	4.9%	1.3%	3.1%
1993	2.1%	0.3%	0.5%	3.7%	1.5%	1.1%
1994	0.5%	-0.3%	2.5%	1.0%	2.3%	1.3%
1995	-3.9%	-1.6%	-0.2%	-2.4%	-0.2%	0.3%
1996	-0.5%	3.2%	4.5%	4.0%	3.7%	3.6%
1997	4.1%	4.0%	6.5%	5.6%	5.4%	5.5%
1998	2.1%	4.1%	4.6%	5.2%	5.2%	5.3%
1999	6.5%	4.2%	3.4%	3.2%	5.3%	3.3%
2000	20.1%	5.0%	5.1%	1.8%	9.9%	5.7%
2001	4.6%	11.4%	14.1%	2.5%	6.9%	6.9%
2002	14.1%	16.9%	18.3%	10.0%	13.4%	11.4%
2003	18.5%	14.2%	14.3%	13.7%	14.6%	12.1%
2004	21.5%	18.5%	18.9%	13.1%	17.9%	16.4%
2005	23.5%	22.8%	30.2%	26.1%	21.6%	21.3%

1. Anne Arundel, Baltimore, Harford, and Howard Counties and Baltimore City
2. Frederick, Montgomery, and Prince George's counties
3. Calvert, Charles and St. Mary's counties

4. Allegany, Garrett, and Washington counties
5. Caroline, Cecil, Kent, Queen Anne's, and Talbot counties
6. Dorchester, Somerset, Wicomico, and Worcester counties

Source: Maryland Department of Housing and Community Development

...Past Housing Cycles from page 3

moderation in the rate of growth of home prices.

As indicated earlier, the year 2005 marks the peak of the third housing cycle in Maryland since 1980 as the state's home price appreciation rate has slowed down to 10.5 percent during the first seven months of 2006, compared with the similar period in 2005. Therefore, based on the historical performance of the state's housing market, the home price inflation rate in Maryland is projected to decline gradually by between 23.0 percent to 24.7 percent, resulting in a trough rate of -0.6 percent to -2.3 percent over the next several years. ■



Residential Construction

Construction Spending Slides

The U.S. Census Bureau reported that July construction spending in the U.S. decreased by 1.2 percent to a seasonally adjusted annual rate of \$1,199 billion, due to a decline in private residential construction. However, compared to July 2005, construction spending was up 5.1 percent. Private construction spending fell 1.3 percent to a seasonally adjusted annual rate of \$930.9 billion. Private residential construction spending was down 2.1 percent in July to \$636.6 billion, and was 2.8 percent below last year. Private nonresidential construction declined slightly by 0.2 percent in July but was up 15.8 percent from last year. Public construction fell 0.7 percent to \$269.1 billion in July, though it was up 9.5 percent from a year ago.

Homebuilder Optimism Reaches New Lows

Homebuilder optimism as measured by the National Association of Home Builders' Housing Market Index (HMI) continued its downward trend for the tenth consecutive month in August. The HMI dropped three points to 32. This is the fourth month in which conditions are viewed as unfavorable by the majority of homebuilders. All three component indexes

declined in August. The Present Conditions Index fell seven points to 36, the Future Sales Index decreased six points to 40, and the Traffic of Prospective Buyers Index fell six points to 21. Homebuilder optimism declined in all the four Census regions. The HMI declined 10 points to 42 in the West, three points to 34 in the Northeast, five points to 15 in the Midwest, and nine points to 41 in the South.

Building Permits Fall Nationwide

Private building permits in the U.S. decreased by 19.7 percent in July to 144,100 units. Single-family permits were down 18.8 percent to 110,500 units while multi-family permits declined by 22.6 percent to 33,600 units. Compared to July 2005, residential building permits issued were down 21.2 percent. Single-family building permits declined 23.1 percent compared to last year, while multi-family permits fell by 14.4 percent.

In the Census' South region, which includes Maryland, the July volume of building permits fell by 18.7 percent to 70,400 units. The region's single-family permits fell 17.1 percent to 56,400 units while multi-family permits fell 24.7 percent to 14,000 units. Compared to July 2005, residential building

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Housing starts in Maryland were up 27.6 percent in July to 2,774 units, due to a significant growth in multi-family construction which rose 373.6 percent to 1,544 units.

permits issued in the South region declined by 16.3 percent. Single-family building permits were down 15.8 percent from last year, while multi-family permits were down 18.4 percent compared to July 2005.

The volume of building permits issued in Maryland fell 55.2 percent in July to 1,521 units. Single-family permits were down 33.4 percent to 1,230 units, while multi-family permits were down 81.2 percent to 291 units. Compared to July 2005, residential building permits issued for all units declined 22.2 percent, reflecting a decrease of 18.7 percent for single-family units and drop of 34.2 percent for multi-family structures.

Multifamily Construction Boosts Housing Starts in Maryland

Nationwide, residential construction fell in July by 4.1 percent to 163,500 units. Single-family construction decreased by 4.7 percent to 133,000 units. Multi-family construction was down 1.6 percent to 30,500 units. Compared to July 2005, housing starts in the U.S. decreased by 10.9 percent, as single-family starts were down 13.6 percent while multi-family starts increased 2.7 percent. Housing starts were down in the South region 1.5 percent to 80,000 units in July, as single-family starts were up 1.3 percent to 68,400 units while multi-family construction fell 15.3 percent to 11,600 units. Compared to July 2005, residential housing starts decreased by 6.4 percent, reflecting decreases of 4.6 percent in single-family construction and of 15.9 percent in multi-family housing activity. However, housing starts in Maryland were up 27.6 percent in July to 2,774 units. Across product types, single-family housing starts decreased by 33.4 percent to 1,230 units while multi-family starts rose 373.6 percent to 1,544 units. Compared to July 2005, Maryland housing starts increased by 25.0 percent. Single-family construction declined 18.7 percent while multi-family construction jumped by 118.1 percent.

Housing Completions Remains Steady in Maryland

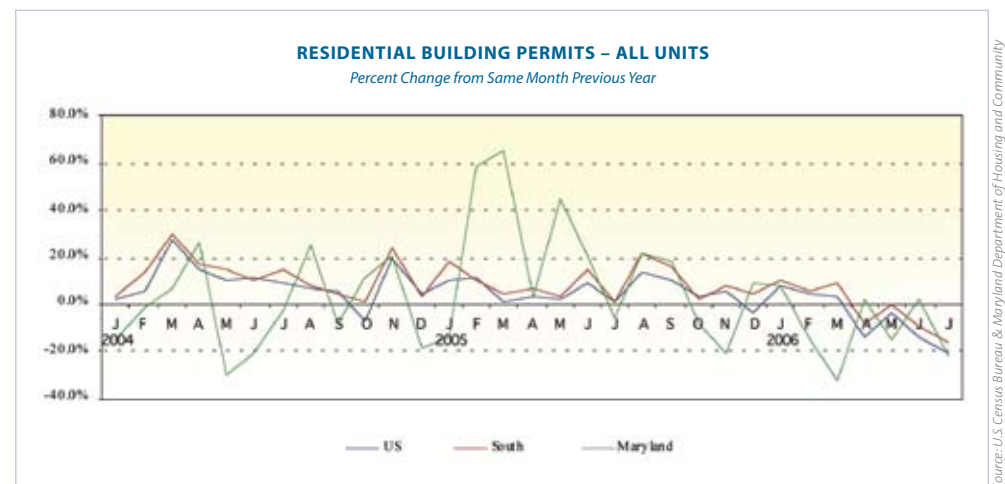
Nationwide, housing completions in July dropped 8.1 percent to 161,900 units. Across the nation, single-family completions were down 8.3 percent to 137,900 units and multi-family completions declined by 7.3 percent to 24,000 units. Compared to the same month last year, housing completions were up 5.6 percent, as single-family completions rose by 4.2 percent and multi-family completions increased by 14.8 percent. In the South region, housing completions were up 4.0 percent to 85,400 units in July. Single-family completions rose by 1.6 percent to 71,700 units, while multi-family completed units jumped by 19.1 percent to 13,700 units. Compared to July 2005, housing completions rose 15.6 percent, as single-family completions were up 14.5 percent while multi-family completions increased by 21.2 percent. The number of housing completions in Maryland totaled 2,169 units in July, unchanged

from the previous month. Single-family completions decreased by 12.8 percent to 1,522 units, while multi-family completions rose by 53.0 percent to 647 units. Compared to July 2005, Maryland housing completions were up 29.3 percent, as single-family completions grew 10.9 percent and multi-family completions rose by 112.8 percent.

Residential Construction in Maryland Counties

Across Maryland, the value of housing permits in July decreased by 33.5 percent to \$243.6 million. Maryland jurisdictions that reported gains in the number and value of building permits issued for this

month included Calvert, Garrett and Harford counties. Statewide, the value of housing starts declined by 8.9 percent to \$291.5 million in July. Overall, several Maryland jurisdictions reported gains in the number and value of housing starts, including Baltimore, Charles, Garrett, Harford, Howard, Montgomery, Prince George's, Washington and Worcester counties. The value of housing units completed in Maryland fell by 20.8 percent to \$256.4 million in July. Maryland jurisdictions that reported gains in the number and value of housing completions included Anne Arundel, Carroll, Charles, Frederick, Howard, Prince George's, and Queen Anne's counties and Baltimore City. ■



RESIDENTIAL CONSTRUCTION – JULY 2006

JURISDICTION	PERMITS		STARTS		COMPLETIONS	
	Units	\$ 000s	Units	\$ 000s	Units	\$ 000s
Allegany	2	279	2	278	1	95
Anne Arundel	73	12,047	77	12,747	142	20,925
Baltimore	119	18,689	212	27,679	200	20,763
Baltimore City	24	3,769	76	10,615	63	7,052
Calvert	87	10,815	44	5,154	30	5,023
Caroline	2	600	2	600	0	0
Carroll	23	3,577	23	3,577	79	11,873
Cecil	40	7,547	40	7,546	32	4,700
Charles	110	23,763	200	31,652	82	17,520
Frederick	85	13,127	85	13,127	255	16,572
Garrett	27	7,516	27	7,516	6	1,460
Harford	141	21,957	123	20,104	49	6,328
Howard	117	18,375	145	21,144	149	18,458
Kent	0	0	0	0	0	0
Montgomery	148	22,545	366	44,176	78	13,538
Prince George's	182	17,083	77	10,483	254	39,139
Queen Anne's	18	3,290	18	3,290	119	10,271
St. Mary's	65	10,333	95	12,808	78	11,268
Washington	50	9,136	86	11,116	107	12,566
Wicomico	14	1,998	103	7,344	37	4,949
Worcester	95	22,243	118	40,519	108	13,819
Maryland	1,521	\$243,558	2,774	\$291,475	2,169	\$256,424

**Totals do not add up since data for Dorchester, Somerset and Talbot counties are not available. Statewide data are based on the projections made by the Census Bureau.*

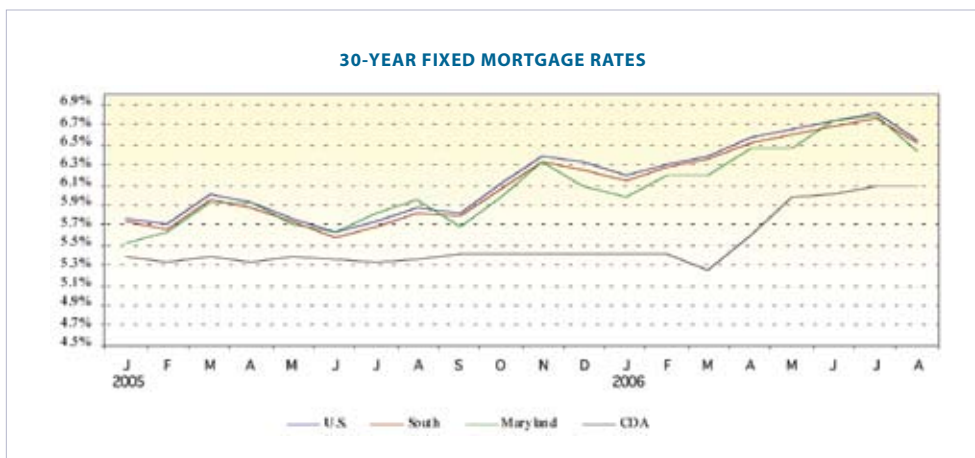
Source: U.S. Census Bureau & Maryland Department of Housing and Community Development

Mortgage Rates

Effective Mortgage Rates Fell in August

Effective 30-year fixed mortgage rates—rates that account for variations in points—for the U.S. and the South fell in August. From July to August, Freddie Mac's 30-year effective fixed mortgage rate decreased from 6.81 percent to 6.55 percent in the U.S., and from 6.77 percent to 6.53 percent in the South region. The 30-year fixed effective mortgage rate in Maryland also dropped, falling from 6.80 percent in July to 6.45 percent in August. The Maryland commercial fixed mortgage rate in August was 10 basis points below the national rate.

The effective mortgage rate of the Community Development Administration (CDA), an agency of the Maryland Department of Housing and Community Development, rose to 6.10 percent in August. The CDA's mortgage program (www.morehouse4less.com) provides low-interest mortgage loans to eligible



homebuyers through private lending institutions throughout the State. The CDA's effective rate in August was 35 basis points below the average effective commercial mortgage rate in Maryland, and 45 basis points below Freddie Mac's national average rate. ■

CDA Maryland Mortgage Program
The smart choice for first-time homebuyers

morehouse4less.com

Home Sales

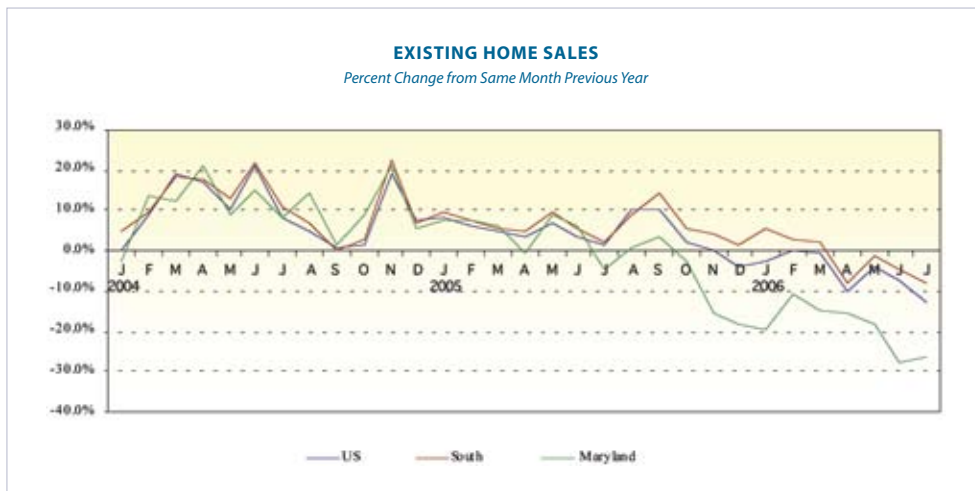
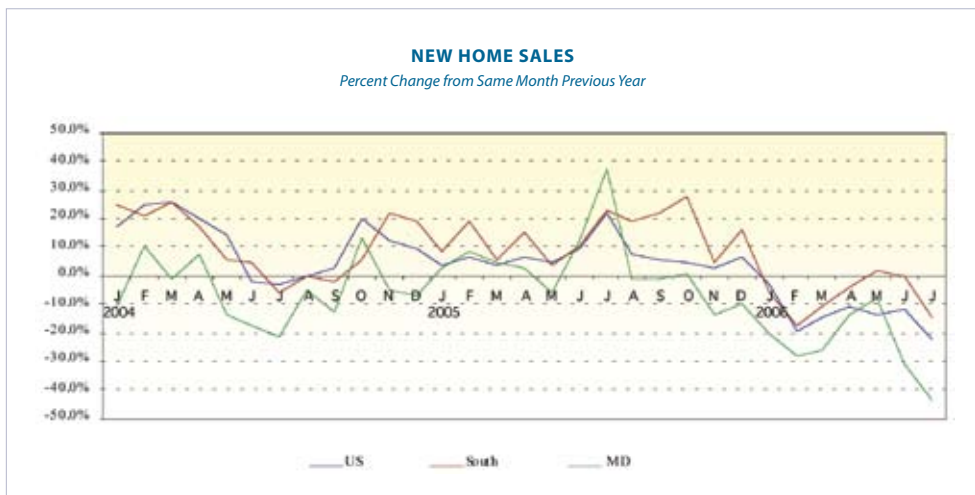
New Home Sales Down in July

According to the Census Bureau, new home sales in the U.S. decreased to 91,000 units in July, following a downward revision for June. The July sales pace decelerated by 10.8 percent from June, and by 22.2 percent from the previous year. The national median sales price of new homes dropped by 1.6 percent in July to \$230,000. There were 562,000 available new homes on the market in July. The national months' supply—the number of months it would take to sell the current inventory at the current sales pace—was up 12.7 percent in July to 6.2 months, while compared to last year, the months' supply was up 59.0 percent. In the South region, new home sales decreased to 46,000 units in July after a downward revision of June data. Compared to last year, the volume of new home sales in the South region was down 16.4 percent. The July inventory of new homes for sale in the South region rose to a 6.3 months' supply, representing an increase of 20.8 percent over June and of 49.6 percent over the previous year. In Maryland, a total of 1,083 new homes were sold in July, representing a decline of 9.1 percent from last month and of 43.3 percent from July 2005.

Existing Home Sales Decline Nationwide

The volume of existing home sales dropped nationwide to 604,000 units in July, following a downward revision in June. Home sales fell 13.6 percent below June and 12.5 percent from last year.

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REAL ESTATE TRANSACTIONS IN MARYLAND – JULY 2006

JURISDICTION	DAYS ON MARKET			HOUSING UNITS SOLD			Housing Inventory	MONTHS' SUPPLY		
	Current Month	Change from		Current Month	Change from			Number of Months	Change From	
		Last Year	Last Month		Last Year	Last Month			Last Year	Last Month
Allegany	93	-1.1%	27.4%	54	-22.9%	-31.6%	284	5.3	58.7%	50.5%
Anne Arundel	64	77.8%	10.3%	713	-22.7%	-4.9%	4,173	5.9	192.3%	6.8%
Baltimore	49	63.3%	16.7%	909	-20.1%	-17.1%	3,493	3.8	167.7%	28.2%
Baltimore City	58	41.5%	1.8%	848	-24.8%	-16.6%	4,290	5.1	178.4%	24.1%
Calvert	80	66.7%	-3.6%	130	-26.1%	7.4%	877	6.7	161.5%	-8.6%
Caroline	106	-25.9%	1.9%	28	-41.7%	-28.2%	376	13.4	142.3%	48.8%
Carroll	54	3.8%	-15.6%	163	-32.1%	-33.7%	1,194	7.3	211.2%	64.1%
Cecil	87	61.1%	-37.0%	96	-32.9%	-30.4%	814	8.5	154.7%	43.9%
Charles	54	107.7%	20.0%	231	-24.8%	-15.4%	1,284	5.6	230.1%	27.8%
Dorchester	107	10.3%	-36.7%	36	-21.7%	-28.0%	495	13.8	108.1%	38.9%
Frederick	69	165.4%	16.9%	316	-29.6%	-17.1%	2,149	6.8	223.5%	24.4%
Garrett	155	-2.5%	-4.9%	44	-13.7%	4.8%	518	11.8	56.0%	-4.2%
Harford	54	50.0%	17.4%	309	-27.3%	-17.4%	1,655	5.4	166.9%	29.3%
Howard	48	140.0%	17.1%	391	-23.3%	-8.0%	1,944	5.0	239.9%	16.6%
Kent	138	-6.1%	-25.0%	23	-4.2%	-14.8%	277	12.0	52.9%	19.1%
Montgomery	49	157.9%	11.4%	1,207	-33.1%	-14.2%	5,589	4.6	243.0%	19.5%
Prince George's	37	76.2%	5.7%	1,074	-23.5%	-13.3%	3,960	3.7	243.5%	28.0%
Queen Anne's	111	56.3%	40.5%	62	-37.4%	-21.5%	617	10.0	138.0%	29.7%
St. Mary's	69	97.1%	76.9%	118	-28.9%	-10.6%	765	6.5	219.3%	12.6%
Talbot	133	-5.0%	17.7%	44	-29.0%	-48.8%	637	14.5	102.2%	95.1%
Washington	88	109.5%	3.5%	159	-22.1%	-2.5%	1,283	8.1	177.1%	5.6%
Maryland	56	70.9%	6.6%	6,955	-26.1%	-14.8%	36,674	5.3	188.8%	22.5%

Note: Data for Somerset, Wicomico and Worcester counties were not available.

MARYLAND PENDING HOME SALES INDEX JULY 2006

JURISDICTION	Pending Sales	Index Value	INDEX	
			Change From	
			Last Month	Last Year
Allegany	79	161.2	11.3%	-10.2%
Anne Arundel	750	123.3	2.9%	-17.6%
Baltimore	912	122.4	-9.0%	-22.5%
Baltimore City	948	155.9	-14.7%	-19.9%
Calvert	132	116.2	4.8%	-18.0%
Caroline	38	142.1	-13.6%	-25.5%
Carroll	177	102.3	-6.8%	-32.2%
Cecil	123	157.5	3.4%	-18.5%
Charles	263	179.9	-5.4%	-23.1%
Dorchester	53	188.2	20.5%	3.9%
Frederick	321	123.9	-7.5%	-30.5%
Garrett	51	151.9	54.5%	-37.8%
Harford	315	136.0	-10.5%	-26.7%
Howard	328	94.5	-18.6%	-33.7%
Kent	31	155.0	6.9%	-6.1%
Montgomery	1,182	94.7	-4.0%	-26.2%
Prince George's	1,184	126.4	-2.9%	-20.4%
Queen Anne's	63	104.4	-1.6%	-38.2%
St. Mary's	140	163.1	-0.7%	-22.2%
Talbot	63	119.2	6.8%	-24.1%
Washington	133	118.4	-19.9%	-37.9%
Maryland	7,819	130.4	-8.0%	-24.1%

Note: Due to lack of available data, the Index can not be calculated for Somerset, Wicomico, and Worcester counties.

...Home Sales from page 5

Nationally, total housing inventory declined 21.2 percent in July to a 4.2 months' supply. Compared to July 2005, the housing inventory was up 5.5 percent. The median sales price of existing homes increased 0.4 percent to \$230,000 in July. Compared to last year, the national median home sales price was up 0.9 percent. Existing home sales in the South region slipped to 234,000 units, representing a decrease of 12.4 percent from June and of 7.9 percent below the previous year. The median home sale price in the South region, \$192,000, was up 1.6 percent from June. Compared to last year, the South region's median home sales price was up 3.2 percent.

In July, the number of existing homes sold in Maryland decreased by 14.8 percent to 6,955 units and was down 26.1 percent from last year. The inventory of Maryland homes available for sale increased by 4.3 percent to 36,674 units, the equivalent of a 5.3 months' supply. The July supply of homes rose by 22.5 percent above last month and 188.8 percent over July 2005. The median sales price of existing homes in Maryland decreased by 1.3 percent in July to \$316,697, up 2.5 percent from the previous year.

Mortgage Application Index Improves in August

Mortgage demand improved in August, with the Mortgage Application Index of the Mortgage Bankers Association increasing by 1.8 percent

to 552.0. The Purchase component of the Index decreased by 3.9 percent to 381.8, while the Refinance component rose by 11.0 percent to 1,548.0. Compared to August 2005, the Index was down 27.0 percent, as the Purchase component declined 22.0 percent while the Refinance component decreased by 93.1 percent. Mortgage rates decreased in August after ten consecutive months of increase. The contract rate on a 30-year, fixed-rate mortgage fell by 24 basis points to 6.52 percent, while the contract rate on a one-year adjustable rate mortgage decreased 15 basis points to 5.64 percent. The typical fixed-rate mortgage is 70 basis points higher than a year ago. The typical adjustable rate mortgage is 109 basis points higher than August 2005. The spread between fixed and adjustable contract mortgage rates, which represents the risk of short term and long term borrowing, narrowed by 88 basis points in August, compared to 127 basis points in August 2005.

Maryland Pending Home Sales Index Declines

According to the National Association of Realtors, the Pending Home Sales Index (PHSI), based on contracts signed in July, decreased 7.0 percent to a reading of 105.6 from a revised level of 113.5 in June. The PHSI was 16.0 percent below July 2005.

Regionally, the PHSI in the South was down 6.4 percent in July to 122.3 and was 11.3 percent below a year ago. The Index in the Midwest decreased 9.0

percent to 93.3 in July and was 20.1 percent below the previous year. In the West, the Index declined 5.5 percent in July, and was 20.3 percent lower than July 2005. In the Northeast, the Index fell 7.7 percent in July to 92.1 and was 15.5 percent below a year earlier.

The Maryland Pending Home Sales Index declined by 8.0 percent to 130.4 in July, signaling a minor slow down in existing home sales over the next two months. Overall, the Index was down in 14 Maryland jurisdictions, but up in eight others. Compared to July 2005, the Index was down 24.1 percent.

Maryland Existing Home Sales Rebound in July

Existing home sales in Maryland increased by 14.8 percent in July to 6,955 units but declined by 26.1 percent from a year ago. Existing home sales were the highest in Montgomery County with 1,207 units sold, representing a decrease of 14.2 percent from last month and of 33.1 percent from July 2005. Other jurisdictions with strong sales in July included Prince George's and Baltimore counties as well as Baltimore City.

Statewide, the July inventory of existing homes for sale was 36,674 units. The inventory rose to 5.3 months' supply in July, representing an increase of 22.5 percent from last month and of 188.8 percent from last year. The supply increase was quite noticeable in Talbot County, where inventories rose 95.1 percent to a 14.5 months' supply. The supply was below six months in Allegany, Anne Arundel,

...continues on page 7

Homeownership Affordability Indices

Homeownership Affordability Index Up in Maryland

The July homeownership affordability indices for repeat buyers and first-time homebuyers in Maryland stood at 86 and 55, respectively, representing a 0.7 percent increase from last month but a decline of 6.6 percent from July 2005. The July increase in homeownership affordability resulted from a decrease in home prices which was partially offset by a rise in mortgage rates. In July, the median sales price of existing homes in Maryland slipped by 1.3 percent to \$316,697 for repeat buyers and to \$269,192 for first-time homebuyers. Effective 30-year mortgage rates rose from 6.73 percent in June to 6.81 percent in July.

Across the state, Montgomery County had the highest median housing price of \$455,000 for repeat buyers and \$386,750 for first-time buyers, down 1.1 percent from a year ago and 2.6 percent

from the previous month. Garrett County, western Maryland's resort destination, was the least affordable jurisdiction with homeownership affordability indices of 59 for repeat buyers and 38 for first-time buyers. Median home prices in Garrett County in July were \$274,950 for repeat buyers and \$233,708 for first-time buyers. Allegany County, on the other hand, with housing affordability indices of 151 for repeat homebuyers and 97 for first-timers was the most affordable jurisdiction in Maryland. Median home prices for Allegany County in July were \$108,500 for repeat buyers and \$92,225 for first-time buyers. Home prices increased in 10 jurisdictions, fell in 13 jurisdictions, and were unchanged in Washington County. The largest increase in median home prices in July was 33.3 percent in Somerset County, while the greatest drop was 29.5 percent in Talbot County. ■

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HOME SALE PRICES AND AFFORDABILITY INDICES – JULY 2006

JURISDICTION	MEDIAN HOME SALE PRICES				HOUSING AFFORDABILITY INDICES			
	Current Month		% Change From		Current Month		% Change From	
	Repeat Buyers	First Time Buyers	Last Year	Last Month	Repeat Buyers	First Time Buyers	Last Year	Last Month
Allegany	108,500	92,225	20.7%	14.3%	151	97	-19.3%	-12.9%
Anne Arundel	350,000	297,500	7.7%	-0.5%	93	60	-11.1%	-0.1%
Baltimore	262,000	222,700	9.2%	0.8%	97	63	-13.0%	-1.3%
Baltimore City	159,975	135,979	16.8%	5.2%	96	62	-12.5%	-5.5%
Calvert	336,000	285,600	-2.3%	-7.9%	103	67	-1.9%	8.1%
Caroline	236,950	201,408	1.0%	7.3%	79	51	-8.8%	-7.3%
Carroll	339,900	288,915	-2.9%	-2.9%	96	62	0.9%	2.4%
Cecil	250,950	213,308	2.4%	-8.7%	100	64	-7.4%	8.9%
Charles	339,000	288,150	7.6%	-0.3%	95	62	-9.7%	-0.3%
Dorchester	212,500	180,625	10.8%	11.1%	81	53	-13.2%	-10.5%
Frederick	315,000	267,750	0.0%	-4.0%	104	67	-5.0%	3.6%
Garrett	274,950	233,708	-23.6%	-26.2%	59	38	24.3%	34.7%
Harford	275,000	233,750	10.0%	6.2%	109	71	-11.5%	-6.3%
Howard	394,300	335,155	-1.4%	-0.9%	94	61	-5.7%	0.3%
Kent	310,275	263,734	18.2%	17.1%	64	41	-17.8%	-15.1%
Montgomery	455,000	386,750	-1.1%	-2.6%	77	50	-6.8%	2.0%
Prince George's	325,000	276,250	6.6%	-3.7%	91	59	-5.9%	3.3%
Queen Anne's	343,650	292,103	-1.8%	4.5%	86	55	-5.2%	-4.8%
St. Mary's	329,500	280,075	6.3%	-1.6%	79	51	-16.6%	1.1%
Somerset	199,999	169,999	70.9%	33.3%	76	49	-43.2%	-25.4%
Talbot	319,000	271,150	-16.5%	-29.5%	70	45	15.1%	40.9%
Washington	244,900	208,165	2.0%	0.0%	86	55	-7.9%	-0.5%
Wicomico	210,999	179,349	30.2%	2.4%	91	59	-26.4%	-2.9%
Worcester	315,999	268,599	-7.1%	-14.8%	67	43	2.2%	16.8%
Maryland	\$316,697	\$269,192	2.5%	-1.3%	86	55	-6.6%	0.7%

Source: Maryland Department of Housing and Community Development

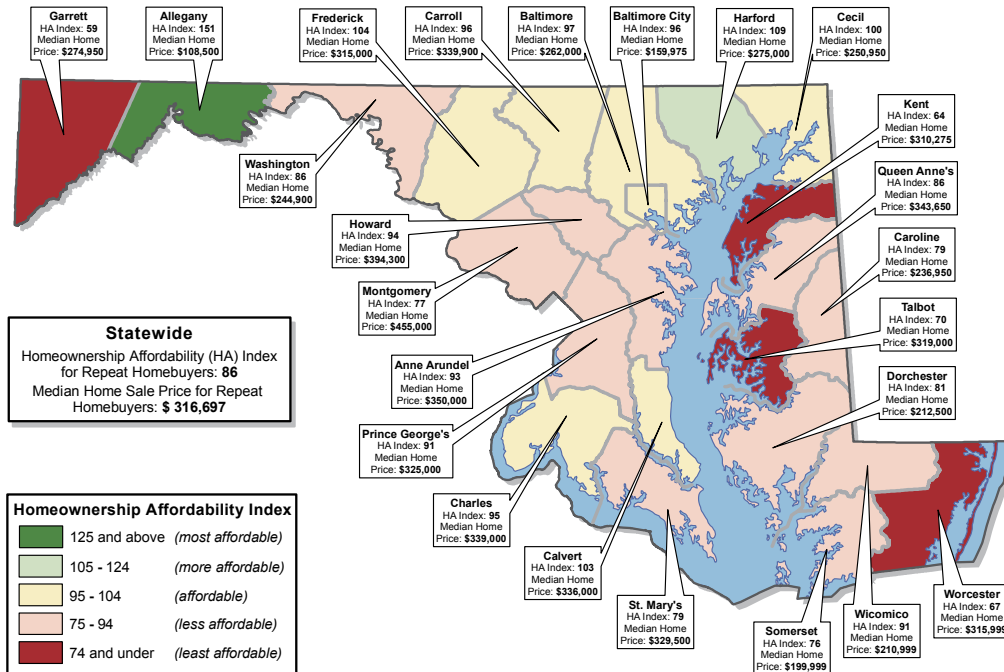
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...Home Sales from page 6

Baltimore, Charles, Howard, Montgomery, Prince George's counties and Baltimore City. In July, existing Maryland homes remained on the market for 56 days from the day the listing became active, representing an increase of 6.6 percent above June and of 70.9 percent from the previous year. Existing homes for sale remained on the market for 155 days in Garrett County, the longest in Maryland, but for just 37 days in Prince George's County, the shortest. ■

AFFORDABILITY INDEX FOR REPEAT HOMEBUYERS – JULY 2006



Source: Maryland Department of Housing and Community Development



Maryland Department of Housing and Community Development

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...National Economic Digest from front cover

positive contribution of +0.01. Total industrial production increased 0.4 percent and manufacturing capacity utilization rose to 82.4 percent. Consumption and housing indicators made a positive contribution of +0.04 in July. Housing starts dropped 2.5 percent while residential building permits fell 6.5 percent. Despite the declines, both measures remained above historical norms and sustained the positive contributions to the CFNAI. The sales, orders and inventories category made a neutral contribution to the July Index. Employment-related indicators made a negative contribution of -0.17 in July. Non-farm payroll employment increased to 113,000 in July. The unemployment rate rose to 4.8 percent in July, up 0.2 percentage points from June.

Beige Book Signals Expansion in Manufacturing Sector

Economic activity continued to expand in all twelve Federal Reserve Districts from mid-July to the end of August but there are several districts that noted economic growth as moderate or modest. Consumer spending increased slowly as result of sluggish sales of vehicles and housing-related goods. Inventories of automobiles increased in several districts while non-auto retailers noted satisfactory inventory levels. The manufacturing sector sustained its strong expansion though weakness prevailed in the sectors related to auto and residential construction. Real estate and construction continued to decline in the residential sector, however, the commercial sector showed signs of strength. Financial institutions reported deceleration in loan demand but credit quality was still favorable. Labor markets held

steady since the last report, with the exception of a few Districts that noted labor shortages for workers with specialized skills. There were increases in energy prices and certain commodities across all Districts.

Consumer Confidence Slips

The Conference Board Consumer Confidence Index declined sharply in August. The August Index dropped to 99.6 from 107.0 in July. The Present Situation Index decreased to 123.4 from 134.2 recorded in July. The Expectations Index declined to 83.8 from the previous month's reading of 88.9. The outlook for the labor market was negative. The number of consumers expecting more jobs to become available in the coming months decreased to 14.0 percent in August from 14.3 percent in July. Similarly, the number of consumers expecting increases to their income in the coming months declined to 17.7 percent in August from 18.3 percent in July.

The University of Michigan's Consumer Sentiment Index dropped from 84.7 in July to 82.0 in August. The present conditions component was up 0.3 points to 103.8 in August. The expectations component, however, declined 4.5 points to 68.0 in August. Although consumer fundamentals remain mixed, the decline in energy prices should enhance consumer finances which are central to the Consumer Sentiment index. ■